

**Design and Implementation of the  
Licensing, Certification and Testing  
Program for Persons Joining  
Capital Market Intermediaries**

**Securities and Exchange Board  
of India (SEBI)  
Task Order No. 004**

**February 1996**

**Financial Institutions Reform and Expansion (FIRE) Project  
US Agency for International Development (USAID/India)  
Contract #386-0531-C-00-5010-00  
Project #386-0531-3-30069**

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## *Price Waterhouse*



February 15, 1996

Mr. D.R.Mehta  
Chairman  
Securities and Exchange Board of India  
Mittal Court, B Wing, 1st floor  
224, Nariman Point  
Bombay 400 021.

Dear Mr. Mehta,

**Re: The Certification program for persons joining intermediaries in the capital market**

At your request and as a part of our contract with USAID, Mr. Tom Keyes, Consultant to Price Waterhouse Capital Markets, is assisting SEBI in the preparation and implementation of the Certification and Testing Program for capital market intermediaries. This forms the part of our activity under sub section B of Task Order No. 4.

### Activities Undertaken

Mr. Tom Keyes was in Bombay from January 10, 1996 to January 25, 1996. During this visit Mr. Keyes assisted the committee in the preparation of a final draft of a broker and sub broker certification syllabus for the committee meeting scheduled for January 24, 1996. He also met with and worked with members of the *SEBI Committee for Standards for Certification for persons joining the intermediaries in the Capital Market*. These meetings focused on the syllabus criteria and content, and administration and other issues related to the broker and sub-broker exam. The focus was also on issues related to the functioning of the retail market and the various intermediaries in the Indian retail market since the orderly development of this segment is significant to this project. Mr. Keyes also met with capital market participants to assess the current standards and industry concerns. A list of people met is enclosed as Attachment A.

#### A. SEBI Committee

Mr. Keyes planned to attend the Committee meeting scheduled on January 24, 1996 to

February 15, 1996

Mr. D.R. Mehta

Page 2

present the examination syllabus, discuss his observations on the administration of the exam and discuss follow up action. The Committee had to unfortunately postpone the meeting, at a short notice, to February 2, 1996 and Mr. Keyes had to go back to the US due to personal commitments.

A final draft of the broker and sub broker certification syllabus was prepared and presented to Mr. Vijay Ranjan, Executive Director, SEBI and Chairman of the committee and Mr. Vivek Kulkarni, Division Chief, SEBI and Member secretary of the committee, on January 23, 1996. The same was also presented to Mr. K. N. Atma Ramani on January 18 and Dr. T. Raju on January 23, 1996. Mr. Keyes was frequently in contact with Dr. T. Raju by phone and fax, and with Mr. N. J. Yasaswy by fax. A final draft of the syllabus was also sent to Mr. Ajit Dey in Calcutta and to Mr. Uday Kotak.

#### B. The Syllabus for the Certification Exam

The Syllabus for Certification Exam was sent to all members of the committee and is attached as Attachment C.

The syllabus is divided into 10 sections which cover all areas which the broker or sub broker must be aware of, to be able to function effectively.

Section 1 covers the practices and regulations governing obtaining of customers.

Section 2 covers the requirements for the broker to be aware of the customer's available investment capital and financial needs.

Section 3 covers Industry Regulations governing securities business in India.

Section 4 covers Information on various investment products like Equity Securities, Common Stock, Preferred Stock, Rights, Warrants, Convertible securities, Preferential Offers etc., Debt Securities, Mutual funds, Money Market Instruments etc.

Section 5 covers the kinds of investment risks and personal and corporate taxation.

Section 6 covers Customer Accounts and Documentation

Section 7 covers the Securities Markets; Primary and Secondary, Settlement of trades and registration of transfers.

Section 8 covers the Principal factors that affect securities markets and prices including the Business Cycles and Securities Analysis

February 15, 1996

Mr. D.R. Mehta

Page 3

Section 9 covers Economics.

Section 10 covers Portfolio Management

### C. Test Specifications and Administering the Exam

Suggestions regarding the specifications for the test were also provided as a part of the syllabus to all the members of the committee. These recommendations shall be discussed in the next meeting of the committee

Suggestions regarding the administering of the test were also provided to SEBI officials on the committee as administering the test shall be the responsibility of the SEBI. A note outlining this was presented to SEBI and is attached as Attachment B.

### Initial Conclusions

#### A. The Sub Broker

The requirement for a brokers certification of supervision of the sub-broker should be deleted from the sub-brokers application for registration with SEBI. This would provide an avenue to sub brokers to register with SEBI. A large number of such applicants have found their request for registration rejected by SEBI because they were unaccompanied by the broker certificate. These sub brokers applied because they are in the business and wish to be in it legitimately. To not register them and letting them continue to remain "unknown" does not gel with the overall movement towards regulating all entities related to the capital markets.

The registration and regulation of this market is a requirement and the current vision of supervision by the exchange brokers will probably not work. SEBI is overawed by the task of regulating the large numbers this involves, with the current staff available to SEBI and therefore there is a need to look at a separate regulatory agency that would be mandated to fulfil this role. This agency should have participation from the market participants and can be created as a true Self Regulatory Organization.

The sub broker network satisfies the need for access to the market by the retail customer, and therefore the current system will likely survive any changes that the market is undergoing including the advent of the depository. Mr. Keyes discussed with several market participants, the effect the depository design would have on the market access to the retail investor and on the way business is currently done. The individual investor has not so far been considered in the systems design, and may now be considered.

Little "real" evidence is available about the functions and activities of the sub broker segment

February 15, 1996

Mr. D.R. Mehta

Page 4

and therefore a study of the "sub-broker" market participants will be most helpful in understanding this largest and significant segment of the market.

#### B. The Certification Exam

The certification examination is expected to be conducted for all market participants. The committee feels that there should only be one test that is taken by all participants since administering too many tests may be difficult to administer initially. The committee also feels that the syllabus for this test should be based on what the investor intermediary (broker and sub broker) needs to know. Mr. Keyes while appreciating the concerns of the committee on test administration feels that this may lead to unhappy candidates. A person employed with a merchant banker need not have a significant level of knowledge in what a broker needs to know and may at the very least find the test "irrelevant". In case the test is prepared for this level of knowledge the standard may be too low to be of relevance to the broker candidates.

Therefore Mr. Keyes suggested to the committee members that if administration difficulties are the main reason for starting with one test then the first test may be limited to only persons employed with investor intermediaries. As experience is gained in the process of administration, new series of tests for other market intermediaries may be introduced.

#### Next Steps

The syllabus has already been sent to all members of the committee for their review before the next meeting of the committee on February 2, 1996. The committee shall discuss the syllabus and decide on the future course of action. The PW FIRE team shall be involved with the members of the committee to fine tune the syllabus based on their suggestions. The question bank shall be developed once a syllabus has been approved by the committee.

The committee shall also discuss the process of administration of the test. The PW FIRE team shall continue to assist SEBI and the committee in finalizing the administration process.

All committee members and SEBI officials with whom the proposed market study on the sub broker segment was discussed have supported the idea. A plan can be developed for further studies of other processes after the information delivered from the first study is absorbed.

We shall initiate the training phase for the market participants, once the depository sponsor either includes or excludes the ISA, and "sub-broker" information is available from the market study. Both are necessary to determine the content of the training segment.

February 15, 1996

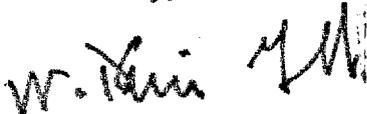
Mr. D.R. Mehta

Page 5

We would like to thank you and your colleagues at SEBI for the time, courtesy and cooperation extended to us during the course of our work.

Please get in touch with us for any clarifications you may require.

Yours Sincerely,



**W. Dennis Grubb**  
**Principal Consultant**

*Design and Implementation of the Licensing,  
Certification and Testing Program for Persons Joining  
Capital Market Intermediaries*

U.S. Agency for International Development / India  
Price Waterhouse / Financial Institutions Reform and Expansion (FIRE) Project

Bombay  
February, 1996

**TABLE OF CONTENTS**

**Attachment A      List of People Interviewed**

**Attachment B      Draft Syllabus for Certification Exam of Persons joining Capital  
Market Intermediaries presented to the Committee**

**Attachment C      Administering the Test**

**ATTACHMENT A**

**LIST OF PEOPLE INTERVIEWED**

1. Mr. K. N. Atmaramani, Tata Asset Management Ltd.
2. Mr. Vivek Kulkarni, Securities and Exchange Board of India
3. Mr. Vijay Ranjan, Securities and Exchange Board of India
4. Dr. T. Raju, UTI Institute of Capital Markets
5. Mr. K. Kannan, Tamilnadu Investors Association
6. Mr. Thyagrajan, Tamilnadu Investors Association
7. Mr. Nirmelendu Jajodia, Stock Holding Corporation of India
8. Mr. R. H. Mewawala, Stock Holding Corporation of India

ATTACHMENT B

DRAFT SYLLABUS FOR BROKER AND SUB BROKER CERTIFICATION EXAM  
PRESENTED TO THE COMMITTEE

Securities and Exchange Board of India

*Draft Syllabus for the Certification Exam*

*Presented to the Committee  
for the Establishment of Standards  
for persons joining Intermediaries in the Capital Market*

*Prepared by:  
Price Waterhouse LLP*

*Draft dated  
January 22, 1996*

TABLE OF CONTENTS

**INTRODUCTION.....ii**

**TEST SPECIFICATIONS.....iii**

**DRAFT SYLLABUS FOR CERTIFICATION**

**Section 1 - Obtaining customers..... 1**

**Section 2 - Customer's available investment capital and  
            financial needs..... 1**

**Section 3 - Industry Regulations..... 2**

**Section 4 - Product Information..... 9**

**Section 5 - Risks and taxation..... 13**

**Section 6 - Customer Accounts and Documentation..... 15**

**Section 7 - Securities Markets; Primary and Secondary,  
            and settlement of trades..... 20**

**Section 8 - Principal factors that affect securities markets and prices..... 26**

**Section 9 - Economics..... 32**

**Section 10 - Portfolio Management..... 33**

**MODEL QUESTIONS..... 34**

## **Introduction**

This Syllabus has been designed to meet the needs of broker and sub-broker candidates and firms and training institutes that prepare candidates for the qualification examination.

When used in preparation for the exam, a Syllabus should prove helpful as a means of understanding the purpose and nature of the exam and an introduction and guide to the basic subjects tested by the exam.

## **Purpose and Nature of the Examination**

The qualification examination is intended to safeguard the investing public by helping to ensure that brokers and sub-brokers are competent to perform their jobs. The examination seeks to measure the degree to which each candidate possesses the knowledge, skills and abilities needed to competently perform the Critical Functions of the job.

Nine Critical Functions performed by brokers and sub-brokers in their dealing with the investing public have been identified and described by a committee of professionals. Proceeding from this identification, the committee determined the specific subjects that need to be known to perform each Critical Function competently. This process insures that all subjects tested are relevant to the job. To further assure the job relevant nature of each form of the exam, all questions are written and reviewed before use by industry committees of experienced brokers and sub-brokers or their trainers or supervisors.

The exam is a two hour thirty minute test containing 100 four-option multiple-choice questions. The measurement purpose of the Exam is to determine whether or not the candidate has attained the level of competency required to function as a new broker or sub-broker.

## **How Scores are Reported**

To achieve a passing score, a candidate must answer correctly 70% of the 100 questions on the exam. The pass or fail results will be reported to each candidate in the post, and to the sponsoring firm.

## **Model Questions**

Ten model questions are presented on page 34 of the Syllabus. These questions are included to provide an introduction to the basic types of multiple choice question formats used in every exam. Candidates who familiarize themselves with these formats should be able to improve their test-taking skills so that their performance on the exam will better reflect their true knowledge in the areas tested.

## Test Specifications

Part	Critical Functions	Percentage of Questions per Exam
I	<b>Customer Regulations</b>	22
	1. Obtaining customers	
	2. Customer available investment capital and financial needs	
	3. Industry Regulations	
II	<b>Securities Instruments</b>	30
	4. Product Information	
III	<b>Handling accounts of customers</b>	8
	5. Risks and taxation	
	6. Customer Accounts and Documentation	
IV	<b>Securities Markets, Order handling and Settlement</b>	20
	7. Securities Markets; Primary and Secondary, and Settlement of Trades.	
V	<b>Economics, analysis and strategies</b>	20
	8. Principal factors that affect securities markets and prices	
	9. Economics	
	10. Portfolio Management	

Draft Syllabus for Certification Test

**Section 1 - Obtaining customers**

- 1.1 Communications to customers, General standards of truthfulness and good taste
- 1.2 Recommendations of securities; disclosure of current price, market making, other conflicts
- 1.3 Approval of communications
  - Individual correspondence--branch manager approval
  - General communications--firm and exchange approval
- 1.4 Laws and industry regulations that govern solicitations, sales presentations and other industry activities

**Section 2 - Customer's available investment capital and financial needs**

- 2.1 Customer's Financial Information
  - Customer's balance sheet
  - Customer's income statement
  - Other financial elements
  - Home ownership, life insurance, tax status
- 2.2 Non-financial restraints
  - Lifestyle
  - Risk tolerance
- 2.3 Investment objectives
  - Preservation of capital
  - Current income
  - Capital growth
  - Total return (growth with income)
  - Tax advantage
  - Portfolio diversification
  - Liquidity
  - Speculation
  - Trading profits

## Section 3 - Industry Regulations

### 3.1 National legislation affecting securities transactions

#### 3.1.1 The Companies Act (1956) and rules (1957) SEBI Regulations on Disclosures and Investor Protection

Prospectus

Disclosures

Advertising and other communication

Allotment

Transfer of shares

#### 3.1.2 Securities Contracts (Regulation) Act , 1956 and (Regulation) Rules, 1957

##### 3.1.2.1 Recognition of Stock Exchanges

Power of SEBI to make or amend Exchange Bye- laws

Power to supersede governing board of exchanges

Qualifications for membership of recognized stock exchanges

Qualifications for corporate membership of recognized stock exchanges

Books of account and other documents to be preserved by the members

##### 3.1.2.2 Requirements for listing of securities

##### 3.1.2.3 Registration of stock exchange members with SEBI

##### 3.1.2.4 Capital Adequacy norms for brokers

###### 3.1.2.4.1 Base Minimum Capital

Additional Capital Requirements related to the volume of  
business

Forms in which capital required to be maintained

Reporting requirement

###### 3.1.2.4.2 Multiple membership norms

3.1.3 Fiduciary laws

3.2 SEBI Act and Regulations

3.2.1 Role and Functions - General powers

3.2.1.1 SEBI to regulate all intermediaries in the securities business.

No broker, sub broker, share transfer agent, banker to the issue, trustee of trust deed, issue registrar, merchant banker, underwriter, portfolio manager, investment advisor or any other intermediary who may be associated with the securities market shall deal in securities except under conditions of registration with SEBI.

3.2.1.2 Penalties for failure to follow rules and regulations under the Act

3.2.1.3 Power to adjudicate

Powers of Adjudicating Officer: To summon and enforce attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document which in his opinion may be useful or relevant to the subject matter of inquiry

3.2.1.4 Appellate Procedure

Securities Appellate Tribunal  
High Court  
Central Government

3.2.2 SEBI (Insider Trading) Regulations

3.2.2.1 The Definition of 'Insider'

'Insider' means any person who, is or was connected with the company or deemed to have been connected with the company and who is reasonably expected to have access, by virtue of such connection, to unpublished price sensitive information in respect of securities of the company, or who has received or has had access to such unpublished price sensitive information.

3.2.2.2

“Person deemed to be a connected person”

A person is deemed to be a connected person if such person,-

- i. Is a company under the same management or group, or any subsidiary company; or
- ii. Is an official or a member of a stock exchange or of a clearing house of that stock exchange, or a dealer in securities, or any employee of such a member or dealer of a stock exchange; or
- iii. Is a merchant banker, share transfer agent, registrar to an issue, debenture trustee, broker, portfolio manager, investment advisor, sub broker, investment company or an employee thereof, is member of the Board of Trustees of a mutual fund or a member of the board of directors of the Asset Management Company of a mutual fund or is an employee thereof, who have a fiduciary relationship with the company; or
- iv. Is a member of the Board of Directors, or an employee, of a public financial institution; or
- v. Is an official or an employee of a Self Regulatory Organization recognized and authorized by the Board of a regulatory body; or
- vi. Is a relative of any of the aforesaid persons; or
- vii. Is a banker of the company

3.2.2.3

‘Unpublished Price Sensitive Information’

‘Unpublished Price Sensitive Information’ means any information which relates to the following matters or is of concern, directly or indirectly to a company, and is not generally known or published by such company for general information, but which if published or known, is likely to materially affect the price of securities of that company in the market-

- i. financial results of the company;

- ii. intended declaration of dividends;
- iii. issue of shares by way of public, rights, bonus etc.;
- iv. any major expansion plans or execution of new projects;
- v. amalgamations, mergers and takeovers;
- vi. disposal of the whole or substantially the whole of the undertaking;
- vii. such other information as may affect the earnings of the company;
- viii. any change in policies , plans or operations of the company;

#### 3.2.2.4

#### Responsibilities of Insider:

No insider shall-

- i. Either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange on the basis of any 'Unpublished Price Sensitive Information';
- ii. Communicate any 'Unpublished Price Sensitive Information' to any person, with or without his request for information; or
- iii. Counsel or procure any other person to deal in securities of any company on the basis of unpublished price sensitive information

#### 3.2.3

#### SEBI Substantial Acquisition of Shares and Takeovers Regulations, 1994

##### 3.2.3.1

#### Disclosures regarding substantial acquisition of shares:

Any person who acquires shares making his total share holding in the company more than 5% of its paid up capital, is required to disclose the aggregate share holding in the company, to the company and the stock exchanges where the company is listed, within 4 working days;

Continual disclosures: A person holding more than 10% shares of the paid up capital of a company shall make half yearly disclosures to the stock exchanges where the shares are listed on March 31 and September 30 each year.

This obligation continues till the investor's share holding reduces below 10% or increases beyond 75% of the company's total voting rights.

3.2.3.2 Takeovers:

No person shall acquire shares in a company which shall make his aggregate holdings more than 10% of the paid up capital of a company, unless he makes a public announcement, to acquire shares for a minimum of 20 % of the company's paid up capital, at a minimum offer price, from other shareholders of the company.

The minimum offer price should be the negotiated price, or the highest price paid by the acquire in the open market or the average of the weekly high and low prices on the stock exchange, for the six months preceding the date of announcement, whichever is higher.

3.2.4 Unfair Trade Practices

SEBI Regulations prohibiting use of unfair trade practices

Definitions

Unfair trade practices

Manipulation

Prohibitions

3.2.5 Regulations related to brokers and sub brokers

3.2.5.1 General definition of a sub broker

A person who acts on behalf of a stock broker as an agent or otherwise assisting investors in buying, selling or dealing in securities through the stock-broker.

Rules of the Securities Exchange Board of India (SEBI) regarding conditions of employment as a sub broker.

How to apply for sub broker certification  
Termination and transfer

*SEBI Rules: S O 627 (E), G.S.R. 780 (E)*  
*BSE rule/ NSE rule*

3.2.5.2 Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations 1992.  
Code of Conduct for Brokers (Regulation 7).  
Code of Conduct for Sub-brokers (Regulation 15).

3.2.5.2.A General

- (1) Integrity : A broker or sub-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all investment business.
- (2) Exercise of Due Skill and Care : A broker or sub-broker, shall act with due skill, care and diligence in the conduct of all investment business.
- (3) Compliance with Statutory Requirements : A broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the stock exchange from time to time as may be applicable to him.

3.2.5.2.B Duty to the Investor ( see section 6.1)

3.2.5.2.C Brokers and Sub-brokers Vis-a-vis Stock Brokers ( see section 7.2.1)

3.2.5.2.D Brokers and Sub-brokers Vis-a-vis Regulatory Authorities

- (1) General Conduct : A sub-broker shall not indulge in dishonorable, disgraceful or disorderly or improper conduct on the stock exchange nor shall he wilfully obstruct the business of the stock exchange. He shall comply with the rules, bye-laws and regulations of the stock exchange.
- (2) Failure to give information : A sub-broker shall not neglect or fail or refuse to submit to the Board or the stock exchange with which he is registered, such books, special returns, correspondence, documents and papers or any part thereof as may be required.
- (3) False or Misleading Returns : A broker or sub-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board or the stock exchange.

- (4) Manipulation : A broker or sub-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumors with a view to distorting market equilibrium or making personal gains.
- (5) Malpractice : A broker or sub-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the public interest (brokers, investors interest) or which leads to interference with the fair and smooth functions of the market mechanism of the stock exchanges. A sub-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

### 3.3 Self-regulatory organizations (SROs)

#### 3.3.1 Functions

- Establish criteria for membership
- Set ethical rules
- Set rules for marketplace
- Establish facilities for the punishment of violations of industry rules and regulations

#### 3.3.2 Enforcement Procedures for rule violations

- Termination of Membership
- Defaulters Committee and procedure during default

#### Definition and Penalties

- Misconduct
- Unbusinesslike conduct
- Unprofessional conduct

#### 3.3.3 Arbitration Procedures

- To recover monetary losses

#### Hearing & Appeals

- Member- member Arbitration
  - Decision may be appealed to the Governing Board

- Member- Non member Arbitration
  - Decision may be appealed to courts

## Section 4 - Product Information

### 4.1 Equity Securities

Terms associated with equities

Authorized, issued, outstanding, treasury stock, limited liability

Terms associated with transferability of equity securities

Certificate, negotiability, Global Depository Receipt (GDR)

Agents and procedures associated with the transferability of equity securities

Transfer agent, issuer, trust deeds, transfer procedures

#### 4.1.1 Common Stock

Pro rata share of dividends

cash

stock, bonus shares

Voting Power

statutory or cumulative

proxies

non-voting common

Residual claims on corporate assets

#### 4.1.2 Preferred Stock

Preference over common

Dividends

Assets in dissolution

Kinds of Preferred Stock

Convertible

Cumulative

Callable

Sinking fund provisions

Adjustable-rate

#### 4.1.3 Securities Exchangeable (with consideration) into common shares

#### 4.1.3.1 Rights

Issued by corporations to current common holders allowing the holder to purchase a proportionate number of new shares being offered by the issuer. Generally, the scrip purchase price with the rights is lower than the current market price.

##### Procedure

Rights Issue  
Letters to stockholders  
Terms of the Offering

##### Rights disposition

##### Theoretical value of each right

#### 4.1.3.2 Warrants

Long term call option issued by some corporations, usually to make a fixed income offering more attractive. The exercise price and term are stipulated. The term is generally years and is sometimes perpetual, and the exercise price is protected by anti-dilution provisions.

Warrants are frequently detachable, and trade separately.

#### 4.1.3.3 Convertible securities (bonds and preferreds)

The convertible security may be exchanged for a fixed number of common shares. The number of shares to be issued is protected by anti-dilution provisions.

The price of the convertible security will trade like a fixed income security when the common is trading below the conversion price, and will trade like the common when the common is trading above the conversion price.

The securities frequently have provisions allowing the issuer to call the securities for redemption, which will sometimes force conversion.

#### 4.1.3.4 Preferential Offer

To all or class of share holders  
Price of offering

4.2 Debt Securities

4.2.1 India Treasury Securities

Debt obligations of the Government of India and State Governments

Indian Treasury Bills

characteristics (maturity, issue process, minimum issue size, quoted and "interest")

settlement procedure

yields (coupon or nominal, current, yield to maturity, bond equivalent)

Indian Government and State Government Securities

characteristics (maturity, issue process, minimum issue size, quoted and "interest")

settlement procedure

yields (coupon or nominal, current, yield to maturity, bond equivalent)

Public Sector Units (PSU) Bonds

characteristics (maturity, issue process, minimum issue size, quoted and "interest", Tax status)

settlement

yields (coupon or nominal, current, yield to maturity, bond equivalent)

4.2.3 Corporate Bonds

characteristics (maturity, issue process, minimum issue size, quoted and "interest")

settlement

yields (coupon or nominal, current, yield to maturity, bond equivalent)

types and characteristics (secured, mortgage, others: unsecured, debentures, subordinated)

retirement (call provisions, maturity, refunding, sinking fund)

Credit Rating

4.3 Funds open and closed

4.3.1 General Characteristics of mutual funds

25

4.3.2 Investment Advantages of mutual funds

Economic investments for small amounts  
Avoids holding of certificates  
Easier Liquidity

4.3.3 SEBI (Mutual Funds) Regulations, 1993 and MOF Guidelines, 1992

4.3.3.1 Guidelines for setting up mutual funds

Asset Management Company  
Trustee company  
Custodian

4.3.3.2 Structure and operations

Closed end funds

Minimum amount that can be raised  
Period for which scheme can be kept open for subscription  
Listing mandatory

Open end funds

Minimum amount that can be raised  
Period for which scheme can be kept open for subscription  
Repurchase mandatory

4.3.3.3 Disclosure Requirements

Management Fees  
Investment Objectives

4.3.3.4 Investment Limitations

4.3.3.5 Net Asset Value

Calculations  
Periodicity of publication

4.3.3.6 Selling Practices

Not allowed to assure returns to investors

4.3.3.7 Advertisement Code

4.3.3.8 Types of Mutual Funds

- Growth funds
- Income funds
- Growth and income funds
- Industry specific funds
- Tax Saving Schemes
- Money Market mutual funds

4.4 Other Investment Products

- Bank Fixed Deposits
- Fixed Deposits with Non Banking Finance Companies
- Company Fixed Deposits
- Non Convertible Debentures
- Public Sector Bonds
- Chit Funds
- Gold and Real Estate
- Gold Bonds

4.5 Money Market Instruments

- Indian Treasury Bills
- Indian Government Agency Securities
- Call Money
- Corporate Commercial paper
- Bankers Acceptances

## **Section 5 - Risks and taxation**

5.1 Kinds of financial investment risk

**Inflationary risk**

Risk that assets will lose their purchasing power

**Capital risk**

Risk that customer may not fully recover the amount invested.

**Selection risk**

Risk that given the choice of suitable securities , the customer may choose the one that performs poorly.

#### Timing Risk

Risk of sustaining losses or lowering possible gains by purchasing or selling securities at a disadvantageous time.

#### Interest Rate Risk

Risk of a rise in interest rates that may depress the price of fixed income securities and often of equities.

#### Market (Systematic) Risk

Risk of a decline in the value of securities owned because of falling markets.

#### Credit Risk

Risk that the issuer of a security will be unable to pay the interest or principal of a security when due, measure of the credit worthiness of the issuer

#### Liquidity Risk

Risk of adverse changes in the quality of securities originally bought that permit their convertibility into cash without a significant loss of value.

#### Risk of Legislative Changes

Risk that new legislation may affect potential financial rewards from assets owned.

#### Call Risk

Risk associated with the redemption of fixed income securities prior to maturity.

### 5.1 Personal Taxation

#### Tax brackets

#### Tax Planning

#### Investments in Public Provident Funds

Premium on Insurance Policies

National Saving Scheme

Post Office Savings Scheme

National Saving Certificates

Tax Saving Schemes of Mutual Funds

Tax on Income from Property

Taxation of distributions

Taxation of interest income

Taxation of gains

Short Term Capital Gains

Long Term Capital Gains

Bond discount or premium

Wealth transfer tax

Gift Tax

### 5.3 Corporate taxation

Tax Rates

Surcharge

Depreciation Provisions

Tax Concessions

## Section 6 - Customer Accounts and Documentation

- 6.1.1 Execution of Orders : A sub-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price. A sub-broker shall promptly inform his client about the execution or non-execution of an order and make payment in respect of securities and arrange prompt delivery of securities purchased by clients. A broker shall not refuse to deal with a Small Investor merely on the ground of the volume of business involved.
- 6.1.2 Issue of Contract Note : A broker shall issue without delay to his client a contract note for all transactions in the form specified by the stock exchange.

6.1.3 Issue of Purchase or Sale Notes

- (a) A sub-broker shall issue promptly to his clients purchase or sale notes for all the transactions entered into by him with his clients.
- (b) A sub-broker shall issue promptly to his clients scripwise split purchase or sale notes and similarly bills and receipts showing the brokerage separately in respect of all transactions in the specified form.
- (c) A sub-broker shall only split the contract notes client-wise and scripwise originally issued to him by the affiliated broker into different denominations.
- (d) A sub-broker shall not match the purchase and sale orders of his client and each such order must invariably be routed through a member-broker of the stock exchange with whom he is affiliated.

6.1.4 Breach of Trust : A broker or sub-broker shall not disclose or discuss with any other person or make improper use of the details of personal investment and other information of a confidential nature of the client which he comes to know in his business relationship.

6.1.5 Business and Commission :

- (a) A broker or sub-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.
- (b) A broker or sub-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.
- (c) A sub-broker shall not charge from his client a commission exceeding one and one-half of one percent of the value mentioned in the respective sale or purchase notes.

6.1.6 Business of Defaulting Clients : A broker or sub-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities and is in default with another broker or sub-broker.

6.1.7 Fairness to Clients : A broker, when dealing with a client, shall disclose whether he is acting as a principal or agent. A sub-broker, when dealing with a client, shall disclose that he is acting as an agent and shall issue appropriate purchase/sale note. A broker or sub-broker shall ensure at the same time, that no conflict of interest arises between him

and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider a client's interest inferior to his own.

6.1.8 Investment Advice : A broker or sub-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, or retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The broker or sub-broker shall seek such information from clients wherever they feel it is appropriate to do so.

6.1.9 Competence of Broker or Sub-broker: A broker or sub-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients. A sub-broker must have arrangements and staff to render continuous compliance with the regulatory system.

## 6.2 Types of Customer Accounts

Individual

Joint, anyone or survivor, either or survivor

Minor through Guardian

Association of persons

Corporations

Company

Trust or Fiduciary

## 6.3 Discretionary Accounts:

No person to carry on any activity as a portfolio manager unless he holds a certificate granted by SEBI under the SEBI (Portfolio Managers) Rules, 1993

Capital Adequacy: Minimum of Rs. 50 lacs

Every portfolio manager shall before taking up an assignment of management, enter into an agreement with the client clearly defining the interse relationship, and setting out their mutual rights, liabilities and obligations.

The contract should contain the following:

1. Investment objectives and services to be provided.
2. Areas of investments and restrictions if any
3. Attendant risks involved in managing the portfolio.

4. Period of contract and provision of early termination.
5. Amount to be invested.
6. Procedure of settling client's account
7. Fees payable.
8. Custody of securities.

Fees should be charged without guaranteeing or assuring any return and the fees should be independent of the return to the client

Each client's funds to be managed in accordance to the needs of each client.

#### 6.4 Regulation of transactions between clients and brokers

6.4.1 Registration of dealers in securities who are not members of the stock exchanges but are associated with the securities markets and who offer to buy or sell securities on a spot delivery basis (i.e. Share shops, Share trading associations, banks).

6.4.2 Trade prices and brokerage to be shown separately on the contract notes issued by stock brokers

6.5 Precautions to be exercised by member brokers of stock exchanges while dealing on behalf of clients.

##### 6.5.1 Mandatory Precautions

1. Ensure that the client is personally known or has been introduced by a known person

2. A record of introduction of all clients may be kept by members and they should insist on their sub brokers to keep the same record. The following data on clients should be maintained

- (a) Name, address, telephone number and age
- (b) Employment status
- (c) Nature of business and address.
- (d) Banker and bank account number
- (e) Introducer's name and address
- (f) Names of all persons on whose behalf the client is operating and
- (g) In case of company, details of company and relevant resolutions

3. Bank reference should be obtained.

4. Due care to be exercised when broker is delivering broker; Transferor Signature should be witnessed by broker or authorized sub broker; Only cheque payment should be made in the name of the shareholder.
5. If selling client name and shareholder name on certificate are different, proper enquiries should be made and a record should be maintained.
6. Names of clients frequently delivering shares which are received under objection, to be informed to the stock exchange.
7. Names of frequently defaulting clients to be informed to the stock exchange.
8. Brokers should insist that clients return duplicates of contract notes duly signed
9. No adjustment should be made between one client account and other without express authority.

#### 6.5.2

#### Guidelines:

1. Each client should provide full particulars in writing about current/ previous dealings with other member brokers and an opinion about the clients should be taken from these other member brokers.
2. Additional details should be insisted upon like the Income Tax PAN/GR number for clients placing large orders.
3. Caution should be exercised while executing large orders for new clients.
4. Caution should be exercised when the clients are dealing with more than one broker.
5. If a client habitually delays payment the broker should insist on advance payment or larger cash margin before execution.
6. Member- brokers should not accept cash or give cash against securities. Only Account Payee Cheques should be used.

**Section 7 - Securities Markets; Primary and Secondary, and settlement of trades.**

**7.1 Primary Markets**

**7.1.1 Merchant bankers**

**7.1.1.1 Registration**

**Category I**

Can perform any activity related to Issue Management and as advisor, consultant, manager, underwriter, Portfolio manager;

Net Worth Requirements Rs 1 crore

**Category II**

Can act as advisor, consultant, manager, underwriter, Portfolio manager

Net Worth Requirements Rs 50 lakhs

**Category III**

Can act as advisor, consultant, underwriter,

Net Worth Requirements Rs. 50 lakhs

**Category IV**

Can act as advisor, consultant

Net Worth Requirements Rs 50 lakhs

**7.1.1.2 Procedure for Penalty Points**

**7.1.2 Key terms -- Issuer, par price, premium price, prospectus, prospectus advertising, application, Bankers, allotment, refunds, stockinvest, issue opens, issue closes, earliest close, minimum subscription, interest paid.**

**7.1.3.1 Stockinvest- SEBI guidelines**

**7.1.3.2 Minimum public offer required**

- 7.1.3.3 Underwriting: SEBI rules
- 7.1.3.4 Market manipulation, grey market
- 7.1.3.5 Book building Process
- 7.1.3.6 Bought out deals- Guidelines
- 7.1.3.7 Requirements to list

Listing Agreement

Listing criteria

NSE

OTCEI

BSE/ Regional Exchanges

- 7.1.3.8 Pricing of Primary Public Issues

New companies to issue stock to public at par

New companies promoted by existing profitable companies can freely price issues

Existing profitable companies can freely price issues

## 7.2 Secondary Markets

### 7.2.1 Brokers and Sub-brokers Vis-a-vis Stock Brokers

- 7.2.1.1 **Conduct of Dealings :** A broker or sub-broker shall co-operate with his broker in comparing unmatched transactions. A broker or sub-broker shall not knowingly and wilfully deliver documents which constitute bad delivery. A broker or sub-broker shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.
- 7.2.1.2 **Protection of Clients Interests :** A broker or sub-broker shall extend fullest co-operation to his stock-broker in protecting the interests of their clients regarding their rights to dividends, right or bonus shares or any other rights relating to such securities.
- 7.2.1.3 **Brokers Transactions with Brokers :** A broker shall carry out his transactions with other brokers and shall comply with his obligations in completing the settlement of transactions with them.

7.2.1.4 Sub-brokers Transactions with Brokers : A sub-broker shall not fail to carry out his stockbroking transactions with his broker nor shall he fail to meet his business or show negligence in completing the settlement of transactions with them.

7.2.1.5 Legal Agreement Between Brokers : a sub-broker shall execute an agreement or contract with his affiliating brokers which would clearly specify the rights and obligations of the sub-broker and the principal broker.

7.2.1.6 Advertisement and Publicity : A broker or sub-broker shall not advertise his business publicly unless permitted by the stock exchange.

7.2.1.7 Inducement of Clients : A broker or sub-broker shall not resort to unfair means of inducing clients from other brokers.

7.2.2 Nature and functioning of exchanges - Quote driven, Order driven markets

7.2.3 Types of securities

Equity (Specified and non specified group)  
Corporate Debt ,  
Money Market Instruments  
Mutual Funds Units

7.2.4 Types of transactions

Agency

Principal

No member of a recognized stock exchange to act as 'principal' with any person other than a member, unless he has secured the consent of such person and discloses in the note, memorandum or agreement of sale or purchase that he is acting as principal.

7.2.5 Screen based trading

BOLT  
NSE  
OTC

7.2.6 Market making Guidelines of SEBI  
Quotes - Bid, ask, spread

7.2.7 Types of orders

Market

Limit

Stop

Time limited, day, Good Till Canceled (GTC), Good Till Days (GTD), Immediate Or Cancel (IOC)

On-Stop (OS)

Undisclosed Value (UV)

Minimum Fill (MF)

All or None (AON)

7.2.8 Order tickets-- information needed, use of price information systems, symbols, routing, source of customer information

7.2.9 Back Office Operations

Trade Reports -- correct or erroneous, record keeping

Contract notes

contents, issuance, sub-broker responsibilities and limits

To be issued to a client within 24 hours of execution

7.3 Settlement

7.3.1.1 Settlement Procedures

Delivery vs. Payment

Rolling Settlement

Settlement periods

Fails to deliver and Auction mechanism

7.3.1.2 Period of settlement in various exchanges

Specified Group  
Non specified group

7.3.1.3 Payment/ Delivery obligations from and to clients:

No sale/purchase to be made on behalf of clients without obtaining 20% margin.

Payment/delivery mandatory by client in full within 48 hours from the issue of contract note for cash shares and 7 days for specified shares.

Payments/ delivery to be made to clients within 48 hours of stock exchange payout.

7.3.2 Brokers' client accounts

7.3.2.1 Clients moneys to be kept in a separate account, with 'Client' in the account title. Member brokers must keep books of accounts to show and distinguish their business as a member, separating client assets from their own.

7.3.2.1.1 No money to be paid into clients account other than -

- money held or received on account of clients.
- such money belonging to the member for opening or maintaining account.
- money for replacement of sum drawn by mistake.
- money received belonging in part to client and in part due to member.

7.3.2.1.2 No money to be withdrawn from clients account other than

- money required for payment on behalf of client or towards debt payment due to member from client

It is also compulsory for all member brokers to keep separate accounts for clients' securities and to keep accounts to distinguish clients' securities from own securities.

### 7.3.2 Delivery

Regulations and practices of "good delivery" (see BSE publication #13, Good and Bad Delivery of Documents)

Signature

In name of deceased

Dividends or rights/ bonus shares due: Accounting for Cum dividend/cum bonus/ cum rights trades.

Transfer deeds with any correction, erasure overwriting or alteration valid if properly authenticated

Mutilated share certificate or transfer deed with any material portion badly torn or mutilated is invalid.

If the name of the transferor on the transfer deed differs materially from that on the share certificates the delivery is bad.

Transfer deed without the name of the company and the transferor written or stamped is invalid.

Transfer deeds signed under power of attorney where the power is given subject to conditions.

Transfer deed signed on behalf of a minor or a lunatic unless accompanied by the certified copy of the relevant court order.

Transfer Deeds signed by an individual against whom insolvency proceedings are pending are bad delivery unless the deed is duly certified and countersigned by the official assignee.

Transfer deeds signed by or on behalf of a company against which liquidation proceedings are pending are bad unless the deed is certified and countersigned by the liquidator.

Transfer deed without the name, code of the delivering broker and date is invalid.

Transfer deed endorsed by the prescribed authority on a date prior to date of closure of register of members of the company delivered after the date of book closure is invalid.

Share certificate and transfer deed not attached together in market lot constitute a bad delivery.

In case of partly paid up shares if a call has been made but not paid and delivery is effected during the period of 10 days before the last date for payment or after it, constitute bad delivery unless accompanied by the call receipt.

### 7.3.3 Registration of Transfer:

7.3.3.1 Company's obligation to complete transfer and deliver certificates to buyer within 2 months under the Company Act and within 90 days of lodgement under the listing agreement.

7.3.3.2 Grounds for refusal of transfer

7.3.3.3 Remedy for investor in case of delay and refusal of registration of transfer  
Appeal to Company Law Board  
Complaint to SEBI  
Complaint to Stock Exchanges

7.3.3.4 Service Tax

Service Tax on brokerage and any other commission charged to the investor for services provided by the broker to the Investor in connection with the sale and purchase of securities listed on recognized stock exchanges.

## Section 8 - Principal factors that affect securities markets and prices

### 8.1 Business Cycle

A recurring sequence of changes in business activity. Beginning with a period of low business activity, (recession) recovery occurs (expansion) until a peak is reached and the level of business activity begins to decline until a bottom is reached (trough).

#### 8.1.1 Key terms.

Recession, depression, expansion, peak, trough, inflation, cycle.

8.1.2 Level of business activity  
Gross Domestic Product (GDP)

8.1.3 Principal theories of the business cycle

8.1.3.1 Keynesian economic theory

Manipulating government spending and taxation policies or other policies designed to affect business or consumer spending and saving decisions can manipulate the economy toward a desired level of economic activity.

Key terms

Consumption, investment, savings, liquidity preference

8.1.3.2 Monetarist theory

Maintains that the business cycle is primarily a function of government control over the money supply rather than a function of government fiscal policy, as is the case with the Keynesian theory.

Key terms.

Money supply, M1, M2, M3

Effects on the interest level and economic activity  
changes in the money supply

8.1.4 Effect of business cycle on securities markets

8.1.5 Bond markets

Effect of inflation/deflation on real interest

Yield curve analysis

Normal/inverted yield curves

Implications

Uses of yield curve analysis

8.1.6 Equity markets

Inflation/deflation

Effect on securities prices of the relationship between yields on fixed securities and equities

Changes in the business cycle

Effect on current stock prices of changes in expectations of future business profits

8.1.7 Sources of information regarding the level of business activity

Indexes

Newspapers

Government sources

8.2 Securities Analysis

8.2.1 Analysis of equities markets

Study of cumulative data that provided the basis for projections relating to strength, weakness and/or durability of current trends for the markets, groups of stocks and individual stocks; Equities market characteristics measured by market analysis.

8.2.1.1 Market Momentum

Degree of strength or present trends for market groups and individual stocks.

8.2.1.2 Available funds

Amount and direction of institutional funds

Monetary environment

Condition of money supply, interest rate level, government fiscal and economic policies affecting the market

Market sentiment

Advance/decline index

8.2.1.3 Use of market indexes in market analysis

8.2.2 Principal theories of equity market behavior

8.2.2.1 Technical analysis

8.2.2.1.1 A method of attempting to forecast or time stock price trends, generally short term. The forecast is based on current stock price trends and the relationship of present prices to prior prices, trends and price patterns. Trading volume is used for corroboration.

8.2.2.1.2 Basic chart patterns

Trend lines, downtrends, up trends, trading channels

42

Support, resistance, accumulation/distribution  
Breakouts  
Moving averages

8.2.2.2 Fundamental analysis

8.2.2.2.1 Quantitative approach to market forecasting based on analysis of corporate balance sheets and income statements. A corporation's strength and weakness, as shown by arithmetic formulas and other measurements of economic and industry trends, are used to forecast movement of stocks and bonds.

8.2.2.2.2 Financial statements

Types of financial statements included in an annual report

Balance Sheets/Profit and Loss statements  
Importance of footnotes and schedules

Key terms

Sources of funds, Application of funds, Assets, liabilities, equity, accounting, depreciation.

8.2.2.2.3 Components of a balance sheet

Sources of Funds

Shareholders' Funds  
Share Capital  
Reserves and Surplus  
Loan Funds  
    Secured Loans  
    Unsecured Loans

Application of Funds

Fixed Assets  
    Gross Block  
    less depreciation  
    Net Block  
    Construction in progress  
    Expenditures pending capitalization  
Investment

- Government Securities
- Others
  - Quoted
  - Unquoted
- Current Assets, Loans and Advances
  - Inventories
  - Sundry Debtors
  - Cash and Bank Balances
  - Loans and Advances
- Current Liabilities and Provisions
  - Liabilities
  - Provisions
- Net Current Assets
- Miscellaneous Expenditures (net)

8.2.2.2.4 Components of a Profit and Loss statement

A Profit and Loss statement provides the amounts and sources of a company's income and the costs involved in attaining that income. Income translates into earnings in the following three stages relative to operating costs, interest and tax expenses.

8.2.2.3.1 Balance Sheet and Income statement analysis determines;

- The risk of a company going bankrupt
- Liquidity of the company's assets in terms of its current liabilities
- The degree of efficiency with which the company uses its assets
- The profitability of the company in terms of its sales
- The future stability, growth and possible problems facing a company.

8.2.2.3.2 Principal measurement tools in financial statement analysis

Liquidity

- Working Capital = Current Assets - Current Liabilities
- Current Ratio = Current Assets / Current Liabilities
- Quick Assets = Current Assets - Inventory
- Net Quick Assets = Quick Assets - Current Liabilities
- Acid Test Ratio = Quick Assets / Current Liabilities
- Cash flow = Net Profit + Depreciation

Risks of Bankruptcy

Bond Ratio = Value of Bonds / Total Long term Capital

44

Common Stock Ratio = (Paid up Capital + Capital Surplus+ Retained Earnings) / Total Long Term Capital

Efficient Use of Assets

Inventory Turnover Ratio = Cost of Goods Sold/ Year end Inventory

Profitability of Sales

Profit Margin Ratio = Operating Profit/ Net sales

Net Profit Ratio = Net Profit// Net Sales

Asset Coverage and Safety Ratios

Debt Interest Coverage Ratio

Book Value per share

Earnings per share

Fully Diluted EPS

Price Earnings Ratio

Dividend Payout Ratio

Current Yield

Comparative Performance

Return on Equity = Net Profit/ Equity Capital

8.2.3 Types of stock identified by degree of market risk

Blue Chip

Growth

Emerging growth

Income

Cyclical

Defensive

Speculative

Special situation

Take-over, management change, new legislation

8.2.4 Factors in comparison of mutual funds

8.2.4.1 Basis of comparison

8.2.4.1.1 Investment objective

Investment policies

Quality of management

Risk factors

8.2.4.1.2. Problems in comparing statistical base of performance

- Time period
- Management performance
- Investor performance
- Taxability of fund distributions
- Sales charges
- Reinvestment of dividend or capital gains distributions

8.2.4.1.3 Importance of non-statistical base of performance

8.2.4.1.4 Expense ratio

8.2.5 Return on Investment

- Simple and Compound Interest
- Discounting and compounding
- Present Value Concept
- Annuities
- Nominal rates and real rates
- Bond Yields

**Section 9 - Economics**

9.1 The role of the RBI in controlling the level of business activity through

- Interest rates
- Reserve requirements

9.2 Effects of international economic factors on securities markets

9.3 Effects of changes in

- India's balance of payments
- Exchange rates

## Section 10 - Portfolio Management

10.1 Printed sources of price information

10.2 Changing factors that affect customer's investment objectives  
Age, marital status, family responsibilities, education, experience in investment, objectivity

10.3 Portfolio management policies

Aggressive - Predominately common stocks on the assumption that the market is strong and is rising and that common stocks will be the best place for funds.

Defensive - Emphasizes securities that should resist declines in price.

Aggressive/defensive - A balanced portfolio of stocks and bonds as a hedge against the market.

10.4 Portfolio Theory

Efficient market hypothesis - Prices reflect all information in markets where information is freely available.

Tools of market measurement - Beta

Portfolio diversification

Asset allocation

**MODEL QUESTIONS**

## MODEL QUESTIONS

1. Which of the following are found in an abridged prospectus (memorandum)?
  - a. Objectives of the issue
  - b. Background of management
  - c. History of the issuer
  - d. All of the above
  
2. The method of analysis which concerns itself with daily volume of trading and price movements is most often referred to as:
  - a. Fundamental
  - b. Systematic
  - c. Technical
  - d. Comparative
  
3. All of the following are defined as "insiders" under SEBI Rules, **except**
  - a. A director of the company
  - b. A shareholder of the company
  - c. Merchant Banker of the company
  - d. The registrar and transfer agent of the company
  
4. A customer who purchased a bond at 80 with a current yield of 5% will receive annual interest of :
  - a. Rs. 80
  - b. Rs. 50
  - c. Rs. 40
  - d. Rs. 5
  
5. An "efficient market " as applied to the stock market refers to which one of the following:
  - a. The bid and ask price will be the same.
  - b. Securities prices reflect all available information, news, research etc.
  - c. Investing constant amounts of money periodically results in a low average cost
  - d. Buying low and selling high results in a profit.

6. What is the best example of arbitrage in the same security?
- Selling on the NSE and buying on the NSE at the same time
  - Selling on the BSE and buying on the BSE at the same time
  - Selling on the BSE and buying on the NSE at the same time
  - Arbitrage is not permitted in the same security
7. The business cycle has expanded, peaked and contracted. The current activity could best be described as a "trough". Which two of the following would most likely be found in a trough?
- High rate of inflation
  - Low rate of inflation
  - High rate of unemployment
  - Low rate of unemployment
  - "RBI" tightening of the money supply
- I and V
  - I and IV
  - II and III
  - II and IV
8. The basic formula of "double-entry" bookkeeping is:
- Asset - Liabilities = Net Worth
  - Assets = Liabilities plus Net Worth
  - Net Worth = Assets minus Liabilities
  - Net Worth = Assets plus Liabilities
9. Shareholders Equity is:
- Current assets minus current liabilities
  - Total assets minus current liabilities
  - Common stock, Preferred stock and Bonds
  - Common stock, Preferred stock and Surplus accounts
10. Which of the following financial balance sheet formulas would NOT be used by a fundamental analyst in the analysis of the "capital Structure" of a company?
- Common Stock ratio
  - Debt to equity ratio
  - Working Capital Ratio
  - Stockholder's equity